NOTES

OUR TRADE BALANCE AND OUR FOREIGN LOANS

The world-trade of 1917 measured in values has in all probability made its highest record. The extraordinary prices which have characterized all classes of merchandise since the beginning of the present European war, and especially during the past year, account in large measure for this showing. Measured in actual freight tonnage it is probable that the commerce of 1917 fell behind that of some of the most active trading years before the outbreak of the conflict across the Atlantic.

TABLE I

EXPORTS AND IMPORTS OF MERCHANDISE DURING THE YEARS 1912 TO 1917 INCLUSIVE

Calendar Year	Exports	Imports	Excess of Exports over Imports
1912..........	$2,399,217,993	$1,818,073,055	$ 581,144,938
1913..........	2,484,018,292	1,792,596,480	691,421,812
1914..........	2,113,624,050	1,789,276,001	324,348,049
1915..........	3,554,670,847	1,778,596,695	1,776,074,152
1916..........	5,482,641,101	2,391,635,335	3,091,005,766
1917..........	6,231,244,976	2,952,467,955	3,278,777,021

The share of the United States in the commerce of the world has increased materially during the last four years. The published figures of our exports and imports for the calendar year 1917 show a total in values more than double that of any year preceding the outbreak of the present war in Europe. The changing relations of foreign trade growing out of this struggle are profound and have great significance for the commerce of the future. To a considerable extent the United States is buying and selling abroad in new markets and along new trade routes. New commercial relations are being formed which bid fair to become permanent.

A significant feature of our trade expansion during the last three years has been an enormous increase in the excess of exports of merchandise over imports—or a marked addition to our so-called "favorable balance of trade" as shown by Table I.[1] According to the figures tabulated the excess of exports over imports in 1917 was nearly six times

[1] *Monthly Summary of Foreign Commerce* (October and December, 1917), p. 4.

what it was in 1912, nearly five times that of 1913, and more than ten times that of 1914. The excess in 1917 was probably greater than that indicated by the figures in the table, as quantities of merchandise, including war material, food, and clothing, were sent out of the United States by the government for the use of our troops in Europe, and such material, when passing out of the country on our own transports, goes without being recorded.[1] The same is true of articles which the government may be importing in the same manner, although these are probably much less than the outgoing merchandise.

"INVISIBLE" ELEMENTS

The debits and credits of the United States in its account with the world are composed, not only of visible exports and imports of merchandise and of gold, but also of less tangible elements which have been called "invisible exports and imports." What is popularly known as the balance of trade is made up of the values of merchandise exported and imported—a common and deep-seated assumption being that a surplus of exports will be accompanied or followed by a corresponding surplus of imports of gold. The interchange of services between nations—as, for example, the transportation of goods from and to a country by the merchant marine of another, or the services rendered by foreign capital—are usually ignored in published statements of a nation's trade balance. These less tangible but very real elements, while usually impossible of exact or even approximate measurement, figure prominently in the determination of our present very large surplus of exports over imports. The items which enter into our account with the world are stated in the following tabulation:[2]

EXPORTS (Which make the supply of foreign exchange)	IMPORTS (Which cause the demand for foreign exchange)
Visible exports	Visible imports
Merchandise	Merchandise
Gold	Gold
Invisible Exports	Invisible imports
Investments (including purchase of stocks and bonds) by foreigners in the United States	Investments (including purchase of stocks and bonds) by Americans in foreign countries

[1] O. P. Austin, Statistician, National City Bank, in *New York Evening Post* (December 31, 1917), sec. 5, p. 1.

[2] Johnson, *Money and Currency*, pp. 91–102. On p. 101 Professor Johnson has a statement of the credits and debits of the United States in its account with the world which the writer, with some modification, has followed.

EXPORTS (Which make the supply of foreign exchange)	IMPORTS (Which cause the demand for foreign exchange)
Interest, dividends, and profits on American investments abroad	Interest, dividends, and profits on foreign investments in the United States
Reduction of American bank balances abroad	Reduction of foreign bank balances in the United States
Increase of foreign bank balances in the United States	Increase of American bank balances abroad
Foreigners in the United States (including tourists, ambassadors, etc.) drawing incomes from abroad	Americans abroad (including tourists, ambassadors, etc.) drawing incomes from the United States
Ocean freights paid Americans by foreigners	Ocean freights paid foreigners by Americans
Any extraordinary indemnity or subsidy from foreigners to the United States or sales of public property by the United States to foreigners	Any extraordinary indemnity or subsidy to foreigners by the United States or purchase of public property by Americans

The items listed under the head of exports make for the supply of foreign exchange and may be considered on the credit side of our account with the world, and those listed under the head of imports cause the demand for foreign exchange and may be regarded as forming the debit side of the account. Among invisible exports and imports, stocks and bonds bought in foreign markets by Americans would create a demand for foreign exchange in the same way as imports of merchandise or of gold, and would tend to stimulate the export of merchandise. Interest paid on such investments by foreigners would help to increase the supply of foreign exchange in the same manner as the export of merchandise, and would tend to stimulate the importation of merchandise.

The "invisible" items which have figured most prominently in the years immediately preceding the war in this account have been investments by foreigners in the United States, investments by Americans abroad, incomes of foreigners on investments already made in the United States, incomes drawn from the United States by Americans living or traveling abroad, and ocean freights paid by Americans to foreigners. All but the first appear on the debit (import) side of our account and create a demand for foreign exchange which in turn tends to increase our export trade. Investments by Americans in foreign industries and public utilities like railroads and traction companies in the years immediately preceding the outbreak of war were probably as great and as

frequent as similar investments by foreigners in the United States.[1] The returns on foreign investments in the United States have hitherto been much larger than returns on American investments abroad. In the past there have been more Americans living and traveling in other countries and drawing incomes from the United States than foreigners living or traveling in this country and receiving incomes from abroad. Before the war only about 10 per cent of our exports and imports were carried in American vessels, necessitating the payment of large ocean freights to foreigners. Our large surplus of exports over imports, amounting each year to several hundred million dollars in the years immediately preceding the war, were thus counterbalanced by a less tangible, but none the less real, surplus of foreign services to American industries or American life.

THE MOVEMENT OF GOLD

The movement of gold was, in general, away from the United States, although in some years the excess of exports of merchandise over imports was met in part by a large surplus of gold imports.[2] Since the beginning

TABLE II

IMPORTS AND EXPORTS OF GOLD

	Imports	Exports	Excess of Imports
1915.........	$451,954,590	$ 31,425,918	$420,528,672
1916.........	685,990,234	155,792,927	530,197,307
1917.........	552,454,374	371,883,884	180,570,490

of the conflict in Europe there has been a strong movement of gold to this country. The excess of exports of merchandise over imports for the three calendar years 1915, 1916, and 1917, as recorded by the Bureau of Foreign and Domestic Commerce, aggregated the enormous sum of $8,145,856,939. A part of this surplus, though a small part, was paid for in gold. The imports and exports of gold for the three years mentioned are given in Table II.[3] The unusually heavy importation

[1] Attention was frequently called to such investments in certain financial and commercial publications like the *New York Journal of Commerce*. American capital flowed into the West Indies, Mexico, and other parts of Latin America.

[2] In the fiscal years 1880, 1881, 1898, and 1908 the excess of gold imports over exports was very large. In a few other years it was considerable.

[3] *Monthly Summary of Foreign Commerce* (October, 1917), p. 4, and *Preliminary Statement of Exports and Imports* for the year 1917.

of gold, especially during the years 1915 and 1916, paid for over $1,100,000,000 of our surplus exports of merchandise during the three years named.

RETURN OF AMERICAN SECURITIES

The most conspicuous feature of our trade balance and the one of greatest significance for the future has been the return to the United States of securities in American industries formerly held by foreigners, coupled with a great increase in investments by Americans in foreign securities—largely, but not wholly, war loans. The extent to which investments by foreigners in American industries have been reduced since the outbreak of hostilities cannot be stated with any degree of accuracy. Four compilations by President Loree of the Delaware and Hudson Company show that nearly 60 per cent of the foreign holdings of American railroad securities was returned to this country in the two years 1915 to 1917. These figures embrace the securities of 144 railroads —all the roads in the United States over one hundred miles in length. The computations were dated January 31, 1915; July 31, 1915; July 31, 1916; and January 31, 1917. They are tabulated in Table III.[1]

It is to be noted that on January 31, 1915, there were $2,704,402,-364.42 (par value) of railroad securities held abroad, and on January 31, 1917, $1,518,590,878.26 had been returned to this country, leaving on the latter date $1,185,811,486.16 still held abroad. The market values of the securities returned between the two dates mentioned cannot be stated, as the market values of the securities held abroad on Janaury 31, 1915, were not determined. Between July 31, 1915, and January 31, 1917, the market value of the railroad securities held abroad had been reduced from $1,751,437,912.50 to $924,542,646.19.

These compilations of President Loree are the only ones determining with any degree of exactness the return to this country of securities held in foreign lands during any part of the war period, and these compilations embrace only railroad securities for a period of two years. The movement had doubtless begun before the first compilation had been made and has probably continued since the last was completed. Railroad securities probably formed the greater part of the American corporate holdings abroad[2] when the war broke out in Europe, but

[1] The figures were furnished the writer through the courtesy of President L. F. Loree and the National City Bank of New York.

[2] The assistant vice-president of the National City Bank of New York so stated in a letter to the writer in January, 1918.

TABLE III

RAILROAD SECURITIES HELD ABROAD, JANUARY 31, 1915; JULY 31, 1915; JULY 31, 1916; AND JANUARY 31, 1917

Class of Security	Par Value*	Market Value†
Preferred stock	$ 204,394,400.00	...
	163,129,850.00	$ 117,863,393.01
	120,597,750.00	93,816,715.00
	91,006,300.00	61,358,921.25
Second preferred stock	5,558,150.00	...
	5,608,850.00	2,115,415.00
	4,858,650.00	2,060,256.00
	4,645,100.00	1,724,583.00
Common stock	573,880,393.00	...
	511,437,356.25	342,225,958.00
	336,761,704.00	234,154,103.00
	285,729,918.75	184,985,417.95
Notes	58,254,390.16	...
	24,632,291.93	22,574,283.93
	9,070,955.00	6,844,240.00
	8,475,650.00	7,966,437.50
Debenture bonds	187,508,310.00	...
	160,288,700.00	141,444,593.00
	74,796,900.00	69,858,284.00
	56,752,080.00	53,714,158.25
Collateral trust bonds	282,418,415.26	...
	180,590,850.00	136,422,185.75
	85,166,470.00	66,526,692.00
	57,776,380.00	51,600,784.95
Mortgage bonds	1,371,156,851.00	...
	1,150,339,130.00	962,081,613.26
	774,793,834.00	628,183,797.00
	672,969,224.08	554,787,819.46
Equipment trust bonds	20,233,455.00	...
	25,253,201.00	24,480,410.55
	7,788,300.00	7,015,683.00
	7,449,833.33	7,397,983.83
Car trusts	...†	...
	29,000.00	29,060.00
	836,000.00	681,320.00
	49,000.00	48,540.00
Receivers' certificates	998,000.00	...
	2,201,000.00	2,201,000.00
	958,000.00	958,000.00
	958,000.00	958,000.00
Total	$2,704,402,364.42	...
	2,223,510,229.18	$1,751,437,912.50
	1,415,628,563.00	1,110,099,090.00
	1,185,811,486.16	924,542,646.19

*The figures are in order, January 31, 1915; July 31, 1915; July 31, 1916; and January 31, 1917. The market values for January 31, 1915, were not determined, and hence the first figure in each case is of July 31, 1915.

† No figure for January 31, 1915.

ownership by foreigners in stocks and bonds of mining and manufacturing companies of the United States have not been small. The return of securities of such concerns must have been considerable, and they have added appreciably to the total of all securities which found their way back to the United States since the beginning of the war.

LOANS BY THE UNITED STATES

Loans floated in the United States by foreign nations, both belligerents and neutrals, reveal another side of the same phase of our trade account with the world. Between August 1, 1914, and December 31, 1916, the loans raised in the United States by foreign countries were estimated to reach $2,325,900,000, of which $175,000,000 had been repaid.[1] The net indebtedness on January 1, 1917, was therefore $2,150,900,000. The loans may be classified geographically as follows:

Europe	$1,893,400,000
Canada	270,500,000
Latin America	157,000,000
China	5,000,000
Total foreign loans	$2,325,900,000
Less amount paid, estimated	175,000,000
Net foreign indebtedness	$2,150,900,000

Of the loans to Europe only $35,000,000 represents advances to neutrals. Of the loans to the belligerent countries of Europe only a small fraction has been made for other than war purposes. About $120,000,000 of the Canadian issue was a war loan. Altogether it appears that approximately $1,900,000,000 in war loans alone had been placed in the United States by January 1, 1917.[2]

The loans of the belligerent countries which were floated in the United States up to the close of 1916 are divided as follows:

Great Britain	$ 908,400,000
France	695,000,000
Russia	160,000,000
Germany	45,000,000*
Canada	270,500,000
	$2,078,900,000†

* Estimated. † Nearly $1,900,000,000 of this constituted war loans.

[1] *New York Journal of Commerce*, January 2, 1917. [2] *Ibid.*

Any estimate of German indebtedness is uncertain, as it was impossible to obtain figures as to the sale of German war bonds. Furthermore, it is probable that banking credits advanced to German interests will never be fully ascertained. Owing to the operations of the British black list and the fact that shipments to Germany have not been direct, but through neutral countries, such transactions have necessarily been not only private but secret.

Since the opening of the year in which the United States entered the war there have been issued $250,000,000 United Kingdom of Great Britain and Ireland one- and two-year $5\frac{1}{2}$ per cent notes, of which $100,000,000 matured and was paid February 1, 1918; $100,000,000 Government of the French Republic $5\frac{1}{2}$ per cent secured convertible notes; $80,000,000 Dominion of Canada notes; and approximately $315,000,000 additional, including British government ninety-day treasury bills.[1] These amounts, minus the notes matured and paid, aggregate approximately $645,000,000. These sums do not of course include loans made by the United States government to her Allies since her entrance into the war.

In addition to the foregoing issues loans have been made by the government of the United States to foreign countries.

By the acts of Congress of April 24, 1917, and September 24, 1917, authority was vested in the Secretary of the Treasury, on behalf of the United States, with the approval of the President, to establish credits in favor of foreign governments engaged in war with the enemies of the United States, and, to the extent of the credits so established, from time to time, to purchase at par from such foreign governments their several obligations.[2]

Such obligations under the authority of the act of April 24 are

to bear the same rate of interest and to contain in their essentials the same terms and conditions as those of the United States issued under the authority of the act, and under the terms of the act of September 24, to bear such rate or rates of interest, not less than the bonds of the United States, to mature at such date or dates, not later than the bonds of the United States then last issued under the authority of either act, and to contain such terms and conditions as might from time to time be determined by the Secretary of the Treasury.[3]

[1] Information furnished the writer through the courtesy of J. P. Morgan & Co., New York.

[2] *Annual Report of Secretary of the Treasury* (1917), p. 17.

[3] *Ibid.*

A total appropriation of $7,000,000,000 was provided for these purposes, $3,000,000,000 by the earlier act and $4,000,000,000 by the later.[1] Under these authorizations credits have been established in favor of the governments of Great Britain, France, Italy, Russia, Belgium, and Serbia. These loans, up to January 17, 1918, are given in Table IV.[2] On the basis of the requests being made on the Treasury, it is estimated that credits aggregating approximately $500,000,000 per month will be required to meet the urgent war needs of the foreign governments receiving advances from the United States.[3] At this rate approximately the entire appropriation authorized by Congress will be accredited to our Allies by the close of the present fiscal year (June 30, 1918).

TABLE IV

Country	Loans and Credits Agreed Upon	Loans Made	Balances Under Established Credits
Great Britain	$2,045,000,000	$1,985,000,000	$ 60,000,000
France	1,285,000,000	1,225,000,000	60,000,000
Italy	500,000,000	450,000,000	50,000,000
Russia	325,000,000	187,729,750	137,270,250
Belgium	77,400,000	75,400,000	2,000,000
Serbia	6,000,000	4,200,000	1,800,000
Totals	$4,238,400,000	$3,927,329,750	$311,070,250

A significant feature of the loans floated in this country in the last three and a half years has been the fact that many states and municipalities which formerly went to London to sell their securities have recently been financed through the United States. About $150,000,000 of the Canadian loans went to provinces and municipalities,[4] and many of the South American obligations were contracted for municipal improvements. The neutral nations of Europe have also sought accommodation in the American money market. Loans have been made to the city of Dublin, Ireland, the London Water Board, and the French cities of Paris, Bordeaux, Lyons, and Marseilles.[5]

[1] *Annual Report of Secretary of the Treasury* (1917), p. 17.

[2] Letter to writer from R. C. Leffingwell, Assistant Secretary of the Treasury, dated January 17, 1918.

[3] *Annual Report of Secretary of the Treasury* (1917), pp. 17 and 18.

[4] *New York Journal of Commerce*, January 2, 1917, and information furnished by J. P. Morgan & Co.

[5] *New York Journal of Commerce*, January, 2, 1917.

Securities of industrial corporations and railroads in other lands have also been sold in this country to the extent of some hundreds of millions of dollars. Large investments have been made in Canadian and South American concerns.[1] We have no means of determining the extent of these investments, but the disposition of European capitalists to reduce their holdings in the securities issued by industrial enterprises in the New World, as shown in the return to this country of railroad securities held abroad, indicates that industrial enterprises in the newer parts of the Western Continent have probably been financed to a greater extent than formerly by American capital.

It will thus be seen that between August 1, 1914, and February 1, 1918, the loans floated by foreign governments in the United States still remaining due at the latter date were estimated at $2,795,900,000. In addition to this amount the United States government had by the middle of January, 1918, made loans to her Allies aggregating $3,927,329,750, with balances in their behalf under established credits of $311,070,250. The return to this country in two years of over a billion and a half (par value) of American railroad securities[2] is a part of the same general movement which is transforming the United States from a debtor into a creditor country. The magnitude of this movement has made the transformation rapid.

FUTURE TENDENCIES

The establishment on a large scale of credits in this country in behalf of foreign nations and the flotation of foreign loans will probably continue during the period of the war. During the continuance of this "export of capital" the great surplus of exports over imports is likely to be a feature of our foreign trade. The interest on this investment which is already large and growing larger is on the credit side of our account with the world—making for the supply of foreign exchange and thus encouraging imports. The United States, as a creditor country with great investments abroad, will be in receipt of an income which will tend to show itself in a relatively larger import trade than has been the case for three or four decades. In other words, our highly "favorable balance of trade" will tend to be changed into an "unfavorable balance."

[1] *Ibid.*

[2] Some of these securities, especially mortgage bonds, are used as collateral for the security of foreign loans, but the greater part represent a permanent return to this country.

This transformation in our trade balance is hastened by another factor which is likely to be very potent if the war is of long duration. This factor is our mercantile marine engaged in foreign trade. Previous to the Civil War the American clipper ships were dominant in ocean transportation. In the years following that struggle steam supplanted sail on the ocean. Iron, and later steel, vessels took the place of wooden ones. A consequence of these changes was that the United States lost her place on the high seas, and only a small fraction of her foreign commerce was carried in vessels flying the American flag. Ocean freight rates were thus paid foreign vessel owners for services performed in the carriage of our exports and imports—these services figuring on the debit side of our account with the world and paid for, in part at least, by a surplus of exports over imports.

Since the outbreak of war in Europe the proportion of our foreign commerce carried in American vessels has greatly increased. Between June, 1914, and June, 1916, the gross tonnage of American vessels engaged in foreign trade increased from 1,076,152 to 2,191,715—or more than doubled. The percentage of our exports carried by this tonnage increased during the same period from 8.3 to 13.0, and of our imports from 11.4 to 22.5.[1] Since the United States entered the war a considerable part of our enrolled tonnage[2] has been registered for the foreign service. The destruction of ocean vessels by submarine activity and the construction of new shipping have combined to increase our proportion of the total carrying capacity of the ocean merchant marine of the world. The bulk of the tonnage destroyed has been British, French, Norwegian, and Dutch. The new construction of vessels in the United States and in Japan has been out of proportion to that of any other country except Great Britain.[3] In the case of Great Britain the new tonnage constructed has been more than offset by tremendous losses. The United States thus bids fair at the end of the war to have on her hands the ships necessary to carry on a large part of her foreign commerce.

[1] *Statistical Abstract*, 1916.

[2] The "enrolled" tonnage is engaged only in domestic trade. Our registered tonnage represents that part of the American merchant marine engaged in foreign commerce.

[3] On the Pacific there was a noticeable decline in the number and tonnage of American vessels operating in the transpacific trade during the first two and a half years of the war. See article by writer on "The War and Trans-Pacific Shipping" in *American Economic Review*, September, 1917.

With the huge loans made to foreign governments and industries coupled with a decline in the holdings of foreigners in American securities and the increasing importance of our mercantile marine in the commerce of the world, our "invisible exports" will figure to a greater extent in our commercial relations with other nations than heretofore. Like the exports of merchandise and of gold, they make for the supply of foreign exchange and will tend to stimulate the importation of merchandise. As a creditor country, the debt due us and the interest on that debt will be paid by a relatively greater increase of imports than of exports. Our present highly "favorable balance" of trade will tend to be changed into an "unfavorable balance." Our "invisible exports" will probably exceed our "invisible imports," with the balance made up by a corresponding excess of "visible imports" over "visible exports."

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WASHINGTON NOTES

FREE USE OF COLLECTION SYSTEM

Important changes in the Federal Reserve transit and collection system have been determined upon and went into effect June 15. The result of the changes is expected to be that of popularizing to a very considerable extent the use of the exchange and collection facilities of the system. In substance the changes result in cutting off a number of charges that have been made for the use of the collection system, such elimination being rendered possible by the very considerable earnings that are now being realized by practically all Federal Reserve banks. These changes come as the logical next step in the development of the plan first made effective practically two years ago. In summary the alterations now provided for are as follows:

1. The Board approves the recommendation to suspend, or eliminate for the time being, service charges for the collection of cash items; this elimination of charges to apply to checks received from member banks and from other Federal Reserve banks and to become effective on and after June 15, 1918.

2. The Board approves the recommendation that the 10 cent charge on collection items between Federal Reserve banks be eliminated for the present